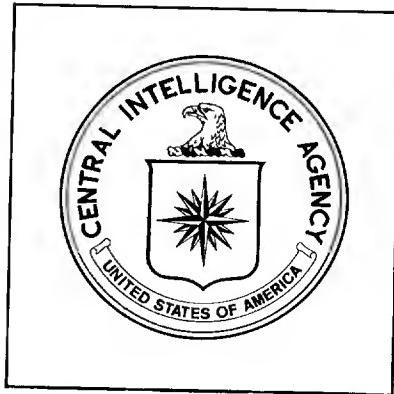


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WESTERN EUROPE -- CANADA -- INTERNATIONAL ORGANIZATIONS

This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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The Unfriendly Skies

Problems on the troubled trans-Atlantic air route are having a detrimental effect on US relations with several European countries. What passes for normal competition in good times has developed into intense rivalry during the present world-wide recession and concomitant slump in tourism.

Swissair officials, who recently concluded an unwanted capacity agreement with TWA, are outraged at Pan Am's new program that increased the commissions paid to agents for ticket sales. The president of Swissair claimed that new Pan Am sales practices have "thrown the entire industry into chaos." He predicted that Swissair's business would be down substantially this year because of the recession, overcapacity, the inflated Swiss franc, and declining European tourism.

The US and The Netherlands recently concluded an uneasy truce over capacity regulations for trans-Atlantic carriers. Both sides issued statements in which they "agreed to disagree" to bring about a summer recess in negotiations which have dragged on since last year. Despite some reductions in flights by both sides the US still contends that KLM violates the bilateral agreement concerning fifth and sixth freedoms, i.e., picking up passengers in one country and routing them through The Netherlands and on to a third country, or picking up passengers in The Netherlands and transporting them to a foreign destination with intermediate stops in other countries.

Pan Am's introduction of its commission program ran into opposition in Belgium this spring. The Belgian aeronautics administration refused to

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2 | allow Pan Am to implement the program, which the Belgians said infringes on the bilateral air transport agreement which regulated the conditions of sale as well as the price. Brussels has since relented, however, and Pan Am's new policy currently is in effect.

4 | In the scramble for passengers, airlines are often guilty of circumventing capacity regulations spelled out in bilateral agreements. Efforts to improve the situation were the concern of a meeting in March of Benelux aviation ministers which resulted in a flurry of press speculation about the merger of KLM, SABENA, and Luxair. Although all three governments denied the rumors, the articles attributed the airlines' problems to declining profits and US government pressure to reduce capacity on the North Atlantic run.

6 | The greatest fear among the European airlines is that the US firms might launch a vigorous fly-American advertising campaign in order to save their foreign passenger service. Such a campaign, particularly if it concentrated on maintenance and safety records, could have a powerful influence on American tourists, who constitute a large portion of the European airlines' customers.

7 | Earlier this year, NATO Secretary General Luns expressed his concern over airline competition prior to a visit to the US. Before departing the Hague via KLM, Luns told reporters that in the NATO framework "very restrictive civil air policies against four small NATO countries (The Netherlands, Belgium, Denmark, and Norway) cannot be good for alliance unity." Bigger NATO members, such as England, West Germany, and Italy, also feel the competition. The British Trade Department recently lost a court case against Pan Am in London over its sales commission policy and West Germany threatened to fine Pan Am for passengers obtained through the newly introduced commission system. (Secret No Foreign Dissem/Background Use Only)

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Portugal's Military Sets Aside Attempt to Ban
Political Parties

The broad policy statement issued last weekend by Portugal's military rulers preserves the existing multiparty political system, but also encourages the establishment of "direct links" between the Armed Forces Movement and the people. If such links are established, they could pose a threat to the existence of Portugal's political parties.

The long-awaited reassessment of Portugal's revolutionary course--released as a communique after eight days of debate within the Movement's Revolutionary Council--concluded that the country must go through several phases before it reaches its objective, a classless society. The document notes that during the current, transitional phase political parties will continue to play a valuable role.

While this does not give political moderates anything they did not already have, it sets aside--at least temporarily--the attempt of radicals in the Movement to abolish all parties. Some of these radicals, associated with the internal security organization, favor the establishment of "councils of workers, soldiers and sailors," while other pro-communist factions want to set up "committees for the defense of the revolution."

The Revolutionary Council's communique declared its support for the establishment of political links with all grassroots organizations whose objectives correspond to those of the Movement. It characterized such organizations as the "embryo of an experimental system of

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direct democracy." A reader could infer that once these organizations are working properly, political parties will be unnecessary.

Henceforth, armed civilian political organizations will not be tolerated; the communique repudiates the establishment of socialism by violent or dictatorial methods.

A large part of the communique is devoted to Portugal's "grave" economic condition. It admits that if the present trends continue, the country's foreign exchange reserves will be practically exhausted by the end of the year. It calls on the governing coalition to put aside its differences and develop an economic strategy by the end of July to reverse the decline in production and the rise in unemployment. In a thinly veiled warning, the Council refers to developing this economic strategy as an "in-depth test of the coalition's viability."

The statement prohibits delegates to the constituent assembly from debating matters not associated with drafting the constitution. This ruling is likely to be violated and could become the source of more friction between military and civilian leaders.

In the policy statement, the Council also announced that it will exert greater control of the media and will take over at least one newspaper to ensure accurate coverage of its policies.

Specific issues, such as the República affair, the election of trade union officials, and agrarian reform were not addressed in the communique. The Revolutionary Council is expected to resume debate on these matters this week.

The Movement's blueprint for the future has done nothing to dispel church-state tensions.

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A statement issued by Portugal's Catholic bishops yesterday branded the siege of Catholic demonstrators at the Cardinal's palace in Lisbon last week as an "attack against fundamental liberties." The church is also angry at the Movement because it will not expel leftist workers who occupied a Catholic radio station last month.

How this and the Republica issues are resolved may say more about whether Portugal is to have a multiparty system or a dictatorship of the proletariat than the Movement's policy statement.
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Disarmament Session to Open

The UN's Conference of the Committee on Disarmament opens its summer session tomorrow in Geneva; as usual, there is little prospect of substantial progress.

The spring session of the 30-member group ended on April 10. It did little more than establish procedures for discussing several questions the UN General Assembly had asked the committee to study--peaceful nuclear explosions, nuclear-free zones, and modification of the environment for hostile purposes.

Most of the work during the summer session will be done at informal meetings of experts. One such group will discuss the arms control implications of peaceful nuclear explosions, another the problems related to changing the environment for hostile purposes.

Interest is being shown in the concept of nuclear-free zones as a means of slowing nuclear proliferation. An experts' study group will attempt to draw up general criteria for establishing nuclear-free zones and to determine where they could be created.

The conference may try to break the deadlock on a proposed joint US-Soviet initiative dealing with chemical warfare.

The question of a comprehensive test ban treaty is likely to come up, given the high priority accorded the idea by non-nuclear states, but it is unlikely that significant positive action will be taken by the committee.
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Finnish Parties Look Ahead to Government Formation Talks

Even though elections are still three months away, Finnish political parties are already setting down terms for participation in the next government. Most parties seem to agree that a broad-based government will have to be formed in order to tackle Finland's serious economic problems.

The Social Democrats, Finland's largest party, have said that the only realistic prospect for a majority government is a repetition of the four-party center-left coalition headed by former Prime Minister Sorsa. They are playing it cozy on the question of Communist participation in the next government. At the Social Democratic Party congress on June 5-8, party chairman Sorsa did not exclude Communist participation in a coalition, but he made it clear that cooperation with the Communists could only take place on a case by case basis.

The Conservatives, who have been out of the government for the past nine years, have expressed a strong interest in participating in the next government. They have even endorsed participating in a coalition that includes the Communists. The Conservatives apparently feel that their chances for participating in the next government are excellent considering the universally recognized need for a broad-based coalition.

Most of the parties will probably be driving hard bargains when inter-party talks begin after the elections. The Social Democrats in particular have insisted that future coalition

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partners stick to a very specific government program. Negotiations are likely to be long and difficult, despite the 100-day self-imposed limit set by the present caretaker government.
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Irish Press Cites US Visa "Policy"

A leading Dublin daily carried a story on June 20 claiming the US was considering lifting its five-year-old ban on visas for members of the Provisional Sinn Fein--the political arm of the terrorist Provisional IRA. The Irish Times claimed the "change of heart" was being considered because of the IRA cease-fire that has been in effect since February. According to the article, Provo leaders Ruairi O'Bradaigh and Maire Drumm intend to test the new "policy" by applying for visas to attend an awards ceremony sponsored by the Irish-American Eire Nua Club in New Jersey this fall.

The US Embassy in Dublin is concerned by the Times reference to the term "policy" for a procedure that is conducted on an individual, case-by-case basis. When a recognized Provisional Sinn Fein member applies for a visa, a superficial investigation is made to determine whether through public speeches or written articles the applicant is guilty of advocating violence toward government officials. If so, the visa is denied under immigration regulations that prohibit entry to the US to aliens who teach or advocate "...the duty, necessity, or propriety of the unlawful assaulting or killing of any officer or officers of the Government of the United States or of any other organized government,...". O'Bradaigh and Drumm had been denied visas before because of their vitriolic outburst against authorities in Northern Ireland.

The main purpose of denying certain Sinn Fein spokesmen entry to the US was to prevent them from raising funds to buy arms. Although the current cease-fire between the Provos and the British

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3 | Army is technically being observed, IRA leaders still are likely to appeal for financial support from Irish-Americans. The Times' erroneous description of the US practice as a blanket rejection of all members of the Sinn Fein could alienate many Irish who might view it as political discrimination. (Confidential No Foreign Dissem)



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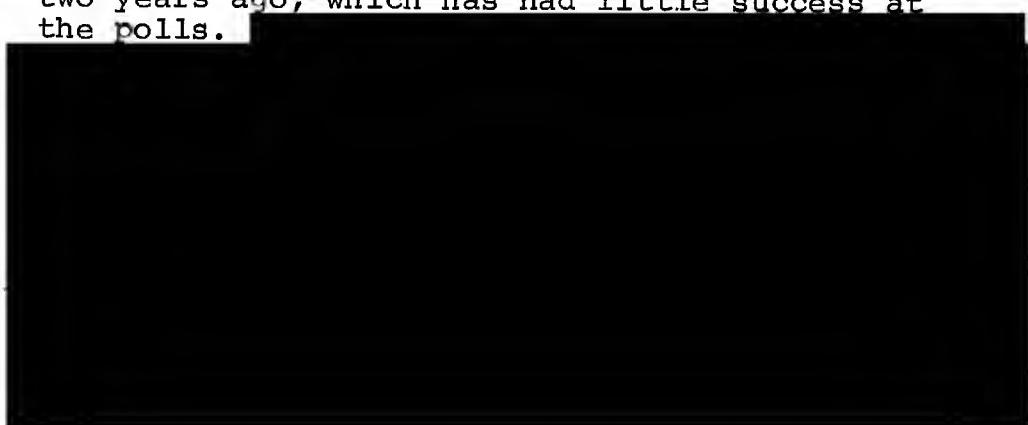
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British Right-wing Laborites Organize

Moderate members of the Labor Party have formed the Social Democratic Alliance to combat what they believe to be the party's "disastrous slide to the left." The group believes that the party's move to the left is not representative of the party's rank and file as illustrated by the outcome of the recent referendum on Britain's EC membership, which clearly went against the left-wing anti-market position.

The group does not yet include any members of parliament, but it has been endorsed by Home Secretary Jenkins and Minister of Overseas Development Prentice. Late last year, moderates in the parliamentary Labor Party formed the Manifesto Group in an effort to create a counterbalance to the left-wing Tribune group. The Manifesto Group also was endorsed by Jenkins, and it claimed to represent traditional social democratic thinking.

The Alliance has no connection with Dick Taverne's Campaign for Social Democracy formed two years ago, which has had little success at the polls.

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An Irish Oil Boom?

Irish minister for commerce and industry Keating recently announced the allocation of 23 blocks of Irish continental shelf to five international oil consortia. During the initial exploration phase, which may last three or four years, the five groups are expected to invest about \$150 million in exploratory wells. In addition to the petroleum operations, some of the consortia will invest several million dollars in industry-related scholarships, land-based jobs, and bonuses to the Irish government.

Keating has done much to restructure foreign investment in Ireland, most notably by insuring that the government gets a bigger slice of the pie from investors. He drove a hard bargain with US mineral exploiters last year over development of the Tara Mines in County Meath. In April, Keating announced the terms for offshore licensing agreements which include the right of state participation, a sliding scale of royalties, renegotiation rights, and other stringent regulations. (Confidential No Foreign Dissem)



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Ecevit Blames Turkish Government for Armed Attack

Turkish opposition leader Ecevit has blamed the coalition government of Suleyman Demirel for an attack against him and his followers at a political rally on Saturday. Specifically, he accused a Justice Party deputy of being responsible for the incident--a charge which the Justice Party immediately denied.

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2 A group of individuals armed with guns, stones, bottles and clubs apparently tried to break up the rally. The police fired shots in the air and some twenty people were injured. Deputy Prime Minister Erbakan denounced the attack but a Justice Party spokesman blamed Ecevit's own "provocations" for the incident.

In Diyarbakir, Nationalist Action party leader Turkes was greeted today by shots fired in the air and some people smashed in the windows of some buildings. The police were able to quickly bring the disturbance under control.

The incidents are a reminder that next fall's senatorial campaign promises to be even more bitterly fought than usual. (Confidential)

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